

Approved For Release 2004/08/19 : CIA-RDP81M00980R000800050023-4

Washington, D. C. 20505

17 FEB 1978

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Honorable W. Michael Blumenthal
Secretary of the Treasury
Washington, D. C. 20220

Dear Mr. Blumenthal:

At the Cabinet meeting on 25 July 1977, we discussed the possibility of legislation which would rescind Section 912 of the Internal Revenue Code, thereby making allowances paid to overseas employees taxable income. On 1 August 1977, I wrote to you to express my concern about this legislation; I understand that other agencies have similar concerns. On the basis of the communications which were exchanged at that time you determined that the proposals submitted by the Department of the Treasury would not include revisions to Section 912 and that you would not subsequently include such revisions without prior consultations with the Interagency Committee on Overseas Benefits and Allowances. I understand that the House Ways and Means Committee has now reopened the issue and that there will be hearings on new legislation before the end of the month.

During the past few years our employees overseas have continued to cope with an inflationary spiral which is generally more severe in foreign areas than it is in the United States. If the employees are suddenly confronted with a substantial reduction in spendable income as a result of additional taxes, there would be an immediate adverse effect on employee morale, resulting in serious staffing problems at foreign posts. Even the renewed possibility of such legislation has caused concern on the part of the employees and managers in the overseas components.

Representatives of the various agencies have met with your staff and the Interagency Committee on Overseas Benefits and Allowances has published a lengthy, detailed report addressing all aspects of this problem. The Committee has documented the fact that the allowances are almost entirely reimbursement for expenses which would not be encountered by employees who are not assigned abroad. The exception is the housing allowance, which does include a benefit which is unique to service abroad, but which we regard as absolutely essential for recruitment and incentive purposes. It should be determined as a matter of U.S. Government policy that cost-free housing is no longer to be given to employees, we believe the solution should be found in administrative action such as charging rent for housing furnished by the Government rather than subjecting the housing allowance to taxation. The tax proposal would in effect convert what is now a standardized allowance into a system imposing uneven costs in accordance with each individual's tax circumstance. We reiterate that any change which significantly reduces the income of employees overseas will have a devastating effect on morale and will make it very difficult to staff overseas positions.

In your negotiations with the House Ways and Means Committee I urge that you support us in our efforts to convince the Committee that a change in Section 912 will not result in a significant net increase in revenue to the Government. The advocates of the change have acknowledged that, if the taxes are increased, there must be additional payments to the employees to offset the losses to them. There is the additional consideration that the compilation of data from all of the overseas facilities, and the inclusion of that data in the individual pay accounts of the employees, would result in a substantial increase in administrative costs. It would, in fact, be detrimental to the service. As I noted in my earlier letter on this subject, our overseas operations will be vitally affected if key employees conclude that their financial best interests require that they avoid service abroad.

Yours sincerely,

SIGNED

STANSFIELD TURNER

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